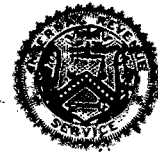


INDUSTRY CIRCULAR

OFFICE OF THE COMMISSIONER OF INTERNAL REVENUE
ALCOHOL AND TOBACCO TAX DIVISION



WASHINGTON 25, D. C.

Industry Circular No. 59-56

August 20, 1959

OPERATIONS OF PRODUCTION FACILITIES AT DISTILLED SPIRITS PLANTS ON A SEVEN-DAY BASIS

Proprietors of distilled spirits plants,
and others concerned:

Purpose. The purpose of this industry circular is to acquaint you with the provisions of existing regulations covering the operations of distilled spirits plants, and to furnish guidelines for operating the production facilities during the period restricted by the provisions of 26 CFR 220.778.

Background. 26 CFR 220.778, as it applies to spirits distilled and withdrawn at 190 degrees of proof or more, by the proprietor of a distilled spirits plant qualified to produce spirits for industrial purposes, is not applicable under Subpart Q of Part 170, since it is inconsistent with the purpose and intent of Public Law 85-859. Such inapplicability extends only to spirits distilled at 190 degrees or more of proof and does not apply to the production of any other spirits which could not have been produced during the restricted hours under law and 26 CFR 220.778, in effect on June 30, 1959. It is the intent of Public Law 85-859 to eliminate artificial statutory distinctions between "alcohol" and "neutral spirits."

Operations under 26 CFR Part 220. Production facilities may be operated seven days a week under Part 220 for the production of neutral spirits (distilled at 190 degrees or more of proof), provided you hold an industrial use permit under Section 5171(b), IRC, and the necessary basic permit under the F.A.A. Act. No spirits other than spirits of 190 degrees or more of proof may, of course, be produced during the period restricted by 26 CFR 220.778.

Operations Alternately under 26 CFR Parts 182 and 220. If you desire to operate production facilities under Parts 182 and 220, you should first file with the assistant regional commissioner a Form 2607 giving notice of intent to operate alternately under those regulations. After approval of the Form 2607, actual alternations will be made pursuant to Form 1696, filed with and approved by the internal revenue officer at the distilled spirits plant.

While operating under Part 182, reports of gauge should be made on Form 1440, records kept and monthly reports submitted on Form 1442. Spirits finished and deposited in receiving tanks during such periods must be designated as alcohol.

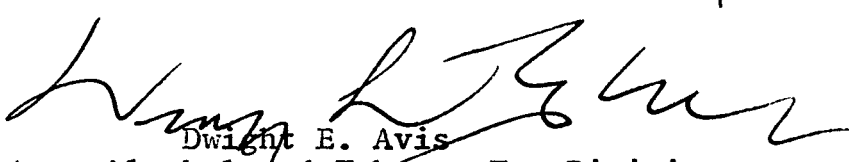
While operating the plant under Part 220, reports of gauge would be made on Form 1520, records kept as provided in 26 CFR 220.755 - 220.756, and monthly reports submitted on Form 1598. Spirits finished during such periods must be designated as provided in 26 CFR 220.548 - 220.555.

It will be necessary to determine the quantities of distilling materials and unfinished spirits on hand at the time of alternation so that such quantities may be reported on Forms 1442 and 1598.

Regulations in 26 CFR 201.656 provide that any spirits distilled at 190 degrees of proof or more, whether or not subsequently reduced, may be mingled in bonded warehouses. As the definition of "spirits" in Part 201 includes both alcohol and neutral spirits, alcohol distilled at or above 190 degrees of proof and neutral spirits (which must be distilled at 190 degrees of proof or more) may be mingled in tanks in the bonded storage facilities of a distilled spirits plant; the mingled spirits may in any case be designated as alcohol; and they may be designated as neutral spirits if all components of the mixture were produced from commodities eligible for use under 26 CFR 220. While no specified quantities are prescribed for such mingling, there must be under the statute an actual mingling of such spirits, and token mingling is not permitted under this procedure. Mingled spirits may be further mingled under the same procedure.

Where alcohol and neutral spirits are to be mingled, the proprietor shall make application to the internal revenue officer on Form 2323, modified as necessary. On completion of the mingling, the warehouse records will be adjusted by debiting and crediting the appropriate accounts.

Inquiries. Inquiries regarding this industry circular should refer to its number and be addressed to your assistant regional commissioner (alcohol and tobacco tax).


Dwight E. Avis
Director, Alcohol and Tobacco Tax Division